

Town of Stockton

Financial Statements
With Auditors' Report Thereon
For the Year Ended June 30, 2005

Ulrich & Associates, PC
Certified Public Accountants
Ogden, Utah

Town of Stockton

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Ulrich & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members
of the Town Council
Town of Stockton
Stockton, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Stockton's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Stockton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Stockton's as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2005 on our consideration of Town of Stockton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ulrich & Associates, P.C.

December 20, 2005

Members of Utah Association of CPAs / American Institute of CPAs

Charles E. Ulrich, CPA | Michael E. Ulrich, CPA
Cathie Hurst, CPA | Heather Christopherson, CPA
website| www.ulrichcpa.com

4991 South Harrison | Ogden, Utah 84403
Tel| 801.627.2100 | Fax| 801.475.6548
email| ulrich@ulrichcpa.com

Town of Stockton
Management's Discussion and Analysis
June 30, 2005

As management of the Town of Stockton, we offer readers of the Town of Stockton's financial statements this narrative overview and analysis of the financial activities of the Town of Stockton's for the fiscal year ended June 30, 2005.

Financial Highlights

The total net assets of \$1,434,111 is made up of \$1,527,912 in capital assets less related debt of \$242,748, and other net assets of \$144,285.

In the Business-type Funds, expenditures exceeded revenues by \$11,295. This includes a non-cash charge for depreciation of \$58,649.

Total long-term liabilities of the Town were reduced by \$18,748.

The town increased its short term debt by voting against bonding for a sewer system. This resulted in a repayment amount to the State of Utah in the amount of \$238,210. The town has yet to repay this amount. It is hopeful that a repayment schedule can be worked out to pay over a period of years.

Reporting the Town as a Whole

This discussion and analysis is intended to serve as an introduction to the Town of Stockton's basic financial statements. The Town of Stockton's basic financial statements comprise three components 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also include other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Stockton's finances, in a manner similar to a private-sector business.

The statements of net assets presents information on all of the Town of Stockton's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Stockton is improving or deteriorating. However, you will also need to consider other nonfinancial factors.

The statement of activities presents information showing how the Town's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Town of Stockton
Management's Discussion and Analysis
June 30, 2005

Both of the government-wide financial statements distinguish functions of the Town of Stockton that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 10 and 11 of this report.

Reporting the Town's Most Significant Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Stockton also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general governmental operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as determined by generally accepted accounting principles) are the general fund and drug task force special revenue fund.

Proprietary funds - The Town of Stockton maintains two types of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Stockton uses enterprise funds to account for its water utility and solid waste.

As determined by generally accepted accounting principles, all enterprise funds meet the criteria of major fund classification.

Town of Stockton

Management's Discussion and Analysis

June 30, 2005

Government-wide Financial Analysis

Net assets, over time, are intended to serve as an indicator of a government's financial position. In the case of the Town of Stockton, assets exceeded liabilities by \$1,667,659, a increase of \$15,196 over the prior year. This increase was largely due to prior period adjustments as described in the notes. By far, the largest portion of the Town of Stockton's net assets is its investment in capital assets (e.g., land, buildings, machinery and equipment, etc). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
Assets:	2005	2004	2005	2004
Current and other assets	\$ 216,955	120,291	191,635	281,058
Capital assets	498,567	471,399	1,034,007	1,106,456
Total assets	715,522	591,690	1,225,642	1,387,514
Liabilities:				
Long-term debt outstanding	10,516	16,721	246,162	256,959
Other liabilities	248,412	42,247	1,963	10,814
Total liabilities	258,928	58,968	248,125	267,773
Net Assets:				
Invested in capital assets, net of debt	488,051	454,678	801,775	847,431
Restricted	104,320	43,439	122,751	117,404
Unrestricted	(135,777)	34,605	52,991	154,906
Total net assets	\$ 456,594	532,722	977,517	1,119,741

Town of Stockton
Management's Discussion and Analysis
June 30, 2005

Changes in Net Assets

	Governmental Activities <u>2005</u>	Business- Type Activities <u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 24,570	124,748
Operating grants & contributions	166,091	2,800
General revenues:		
Property taxes	53,330	-
Other taxes	84,520	-
Interest income	3,135	3,470
Miscellaneous	3,557	-
Total revenues	<u>335,203</u>	<u>131,018</u>
Expenses:		
General government	61,564	-
Public safety	189,338	-
Highways/public improvements	34,119	-
Parks & recreation	8,634	-
Other	560	-
Water & waste collection	-	146,251
Total expenses	<u>294,215</u>	<u>146,251</u>
Increase (decrease) in net assets	40,988	(15,233)
Net assets, beginning of year	<u>415,606</u>	<u>992,750</u>
Net assets, end of year	<u>\$ 456,594</u>	<u>977,517</u>

Town of Stockton
Management's Discussion and Analysis
June 30, 2005

Financial Analysis of Government's Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements.

As of June 30, 2005, the Town's General Fund reported a fund balance of \$163,160. This represents an increase of \$3,895 (1.02%) more than last year's ending balances.

The General Fund is the chief operating fund of the Town. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Grants and contributions were the largest source of revenue in the General Fund and represent 49.5% of total general fund revenues.

The Town maintains two enterprise funds to account for the business-type activities of the Town. The separate fund statements included in this report provides the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

Significant changes in business-type activities include a \$12,993 decrease in debt due to regular principal payments .

General Fund Budgetary Highlights

During the fiscal year the General Fund original budget was amended from an original budget expenditure total of \$246,500 to a final budget of \$336,200 (36.4%). This increase was due largely to anticipated purchase of public safety equipment.

Capital Asset and Debt Administration

Capital assets - The Town of Stockton's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$214,333 of land, \$215,623 of buildings, \$90,480 of improvements, \$759,458 of water mains and distribution system and \$248,018 of machinery and equipment. The total increase in the Town's investment in capital assets increase 2.3%.

Major capital asset events during the current fiscal year included the following:

\$62,276 Machinery and equipment in the general fund for police equipment.

\$4,999 Machinery and equipment in the special revenue fund.

\$2,918 Office furniture in the special revenue fund.

Town of Stockton
Management's Discussion and Analysis
June 30, 2005

Town of Stockton's Capital Assets

	Governmental Activities 2005	Business- Type Activities 2005
Land	\$ 106,495	107,838
Buildings	271,868	40,632
Improvements	157,383	
Distribution mains and reservoir	-	1,695,638
Machinery and equipment	258,353	229,656
Less: accumulated depreciation	<u>(295,532)</u>	<u>(1,039,757)</u>
Total	<u>\$ 498,567</u>	<u>1,034,007</u>

Additional information on the Town's capital assets can be found in the footnotes of this report.

Long-term Debt

At June 30, 2005, the Town had no bonded debt outstanding. The debt of the Town is secured solely by specific revenue sources (i.e., revenue bonds).

Town of Stockton's Long-Term Debt

	Governmental Activities 2005	Business- Type Activities 2005
Water revenue bonds	\$ -	87,340
Capital lease payable	10,516	144,892
	<u>\$ 10,516</u>	<u>232,232</u>

The Town's total debt decreased by \$17,748 during the fiscal year.

Additional information on the outstanding debt obligations of the Town can be found in the footnotes to this report.

BASIC FINANCIAL STATEMENTS

Town of Stockton
Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 137,502	45,625	183,127
Accounts receivable - net	79,453	9,459	88,912
Restricted assets:			
Cash & cash equivalents	-	122,751	122,751
Water stock	-	13,800	13,800
Capital assets (net of accumulated depreciation):			
Land	106,495	107,838	214,333
Buildings	203,606	12,017	215,623
Improvements	90,480	-	90,480
Water mains and distribution	-	759,458	759,458
Machinery and equipment	97,986	154,694	252,680
Total assets	715,522	1,225,642	1,941,164
<u>Liabilities</u>			
Accounts payable and accrued liabilities	5,036	1,963	6,999
Landscape escrow	5,166	-	5,166
Customer deposits	-	13,930	13,930
Short-term note payable	238,210	-	238,210
Capital lease payable - current	6,413	8,793	15,206
Revenue bond payable - current	-	4,782	4,782
Capital lease payable - noncurrent	4,103	136,099	140,202
Revenue bond payable - noncurrent	-	82,558	82,558
Total liabilities	258,928	248,125	507,053
<u>Net Assets</u>			
Invested in capital assets, net of related debt	488,051	801,775	1,289,826
Restricted for capital improvements	62,860	103,751	166,611
Restricted for debt	41,460	19,000	60,460
Unrestricted	(135,777)	52,991	(82,786)
Total net assets	\$ 456,594	977,517	1,434,111

The notes to the financial statements are an integral part of this statement.

Town of Stockton

Statement of Activities

For the Year Ended June 30, 2005

Function/Programs	Net (Expense) Revenue & Changes in Net Assets				
	Primary Government				Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 61,564	7,290	62,017	-	7,743
Public safety	189,338	17,280	75,751	-	(96,307)
Highways and public improvements	34,119	-	28,323	-	(5,796)
Parks and recreation	8,634	-	-	-	(8,634)
Interest	560	-	-	-	(560)
Total governmental activities	294,215	24,570	166,091	-	(103,554)
Business-type activities:					
Water utility	106,120	87,202	2,800	-	(16,118)
Solid waste	40,131	37,546	-	-	(2,585)
Total business-type activities	146,251	124,748	2,800	-	(18,703)
Total primary government	\$ 440,466	149,318	168,891	-	(122,257)
General revenues:					
Property taxes					53,330
General sales and use tax					41,807
Franchise tax					24,917
Fees in lieu					17,796
Interest earnings					3,135
Miscellaneous					3,557
Total general revenues					144,542
Change in net assets					40,988
Net assets - beginning, as adjusted					415,606
Net assets - ending					\$ 456,594

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Special Revenue	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 137,262	240	137,502
Receivables (net):			
Taxes	55,568	-	55,568
Intergovernmental	6,029	-	6,029
Other	-	17,856	17,856
Due from other funds	14,500	-	14,500
Total assets	<u>213,359</u>	<u>18,096</u>	<u>231,455</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	232	4,804	5,036
Due to other funds	-	14,500	14,500
Landscape escrow	5,166	-	5,166
Deferred revenue	44,801	-	44,801
Total liabilities	<u>50,199</u>	<u>19,304</u>	<u>69,503</u>
Fund Balances:			
Reserved for:			
Capital improvements	62,860	-	62,860
Roads	41,460	-	41,460
Unreserved, reported in:			
General	58,840	-	58,840
Special revenue	-	(1,208)	(1,208)
Total fund balances	<u>163,160</u>	<u>(1,208)</u>	<u>161,952</u>
Total liabilities and fund balances	<u>\$ 213,359</u>	<u>18,096</u>	<u>231,455</u>

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Balance Sheet Reconciliation to Statement of Net Assets
June 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances - governmental fund types:	\$ 161,952
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$794,099 and the accumulated depreciation is \$295,532.	498,567
Property tax revenue is recognized when earned (claim to resources established) rather than when "available." The deferred property tax is not available.	44,801
Short term note payable is not due in the current period and therefore not reported in the funds.	(238,210)
Capital lease is not due and payable in the current period and therefore are not reported in the funds.	(10,516)
Net assets of government activities	<u>\$ 456,594</u>

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Special Revenue	Total Governmental Funds
<u>Revenues</u>			
Taxes	\$ 137,843	-	137,843
Licenses and permits	7,290	-	7,290
Intergovernmental	104,074	59,242	163,316
Charges for services	-	-	-
Fines and forfeitures	17,280	-	17,280
Interest	3,107	28	3,135
Miscellaneous revenue	3,557	-	3,557
Impact	2,775	-	2,775
Total revenues	<u>275,926</u>	<u>59,270</u>	<u>335,196</u>
<u>Expenditures</u>			
Current:			
General government	55,852	55,608	111,460
Public safety	166,688	-	166,688
Highways and public works	34,119	-	34,119
Parks and recreation	8,522	-	8,522
Debt service:			
Principle payment	6,850	-	6,850
Capital outlay	-	-	-
Total expenditures	<u>272,031</u>	<u>55,608</u>	<u>327,639</u>
Excess revenues over (under) expenditures	<u>3,895</u>	<u>3,662</u>	<u>7,557</u>
Fund balances - beginning of year, as adjusted	<u>159,265</u>	<u>(4,870)</u>	<u>154,395</u>
Fund balances - end of year	<u>\$ 163,160</u>	<u>(1,208)</u>	<u>161,952</u>

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Changes Reconciliation to Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 7,557
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 70,193	
Depreciation expense	<u>(43,059)</u>	27,134

The governmental funds report repayment of capital lease as an expenditure, where as in the government wide it is shown as a reduction of principal.	6,290
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Property tax revenues received prior to the year for which they are being levied are reported as deferred revenue in the governmental funds. They are, however recorded as revenues in the statement of activities. Deferred property tax revenues increased this year.	7
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Change in net assets of governmental activities	<u>\$ 40,988</u>
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The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>Revenues</u>				
Taxes	\$ 113,000	124,450	137,843	13,393
Licenses and permits	14,500	14,500	7,290	(7,210)
Intergovernmental	51,700	129,950	104,074	(25,876)
Charges for services	1,500	1,500	-	(1,500)
Fines and forfeitures	18,000	18,000	17,280	(720)
Interest	1,600	1,600	3,107	1,507
Miscellaneous revenue	6,400	6,400	3,557	(2,843)
Impact fees	5,000	5,000	2,775	(2,225)
Total revenues	211,700	301,400	275,926	(25,474)
<u>Expenditures</u>				
Current:				
General government	90,600	70,450	55,852	14,598
Public safety	108,550	205,100	166,688	38,412
Highways and public works	37,750	43,300	34,119	9,181
Parks and recreation	4,600	9,500	8,522	978
Debt service:				
Principle payment	-	6,850	6,850	-
Capital outlay	5,000	1,000	-	1,000
Total expenditures	246,500	336,200	272,031	64,169
Excess revenues over (under) expenditures	(34,800)	(34,800)	3,895	38,695
Fund balances - beginning of year, as adjusted	159,265	159,265	159,265	-
Fund balances - end of year	124,465	124,465	163,160	-

The notes to the financial statements are an integral part of this statement.

Town of Stockton

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Drug Task Force Special Revenue
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<u>Revenues</u>				
Grants	\$ 305,410	66,993	59,242	(7,751)
Interest	-	-	28	28
Total revenues	<u>305,410</u>	<u>66,993</u>	<u>59,270</u>	<u>(7,723)</u>
<u>Expenditures</u>				
Current:				
General	<u>305,410</u>	<u>66,993</u>	<u>55,608</u>	<u>11,385</u>
Total expenditures	<u>305,410</u>	<u>66,993</u>	<u>55,608</u>	<u>11,385</u>
Excess revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>3,662</u>	<u>3,662</u>
Fund balances - beginning of year, as adjusted	<u>(4,870)</u>	<u>(4,870)</u>	<u>(4,870)</u>	<u>-</u>
Fund balances - end of year	<u>\$ (4,870)</u>	<u>(4,870)</u>	<u>(1,208)</u>	<u>3,662</u>

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities - Enterprise		
	Water Utility	Solid Waste	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 37,652	7,973	45,625
Accounts receivable - net of allowance of \$ 965	9,459	-	9,459
Total current assets	<u>47,111</u>	<u>7,973</u>	<u>55,084</u>
Noncurrent assets:			
Restricted cash and cash equivalents	122,751	-	122,751
Water stock	13,800	-	13,800
Land, equipment, buildings and improvements	1,915,120	158,644	2,073,764
Less: accumulated depreciation	<u>(1,020,623)</u>	<u>(19,134)</u>	<u>(1,039,757)</u>
Total noncurrent assets	<u>1,031,048</u>	<u>139,510</u>	<u>1,170,558</u>
Total assets	<u><u>\$ 1,078,159</u></u>	<u><u>147,483</u></u>	<u><u>1,225,642</u></u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 371	1,592	1,963
Due to other funds	-	-	-
Customer deposits	13,930	-	13,930
Current portion capital leases	-	8,793	8,793
Current portion revenue bonds	<u>4,782</u>	<u>-</u>	<u>4,782</u>
Total current liabilities	<u>19,083</u>	<u>10,385</u>	<u>29,468</u>
Noncurrent liabilities:			
Capital leases (net current portion)	-	136,099	136,099
Revenue bonds (net current portion)	<u>82,558</u>	<u>-</u>	<u>82,558</u>
Total noncurrent liabilities	<u>82,558</u>	<u>136,099</u>	<u>218,657</u>
Total liabilities	<u>101,641</u>	<u>146,484</u>	<u>248,125</u>
Net Assets:			
Invested in capital assets net of related debt	807,157	(5,382)	801,775
Restricted for capital improvement	103,751	-	103,751
Restricted for debt reserve	19,000	-	19,000
Unrestricted	<u>46,610</u>	<u>6,381</u>	<u>52,991</u>
Total net assets	<u>976,518</u>	<u>999</u>	<u>977,517</u>
Total liabilities and net assets	<u><u>\$ 1,078,159</u></u>	<u><u>147,483</u></u>	<u><u>1,225,642</u></u>

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Utility</u>	<u>Solid Waste</u>	<u>Total</u>
<u>Operating Revenues</u>			
Charges for services	\$ 86,669	37,546	124,215
Miscellaneous	533	-	533
Total operating revenues	87,202	37,546	124,748
<u>Operating Expenses</u>			
Salaries and wages	16,850	5,749	22,599
Employee benefits	1,286	436	1,722
Maintenance and supplies	36,021	17,052	53,073
Depreciation and amortization	47,447	11,202	58,649
Total operating expenses	101,604	34,439	136,043
Operating income	(14,402)	3,107	(11,295)
<u>Nonoperating Revenues (Expenses)</u>			
Interest revenue	3,470	-	3,470
Interest expense and fiscal charges	(4,516)	(5,692)	(10,208)
Impact fees	2,800	-	2,800
Total nonoperating revenues (expenses)	1,754	(5,692)	(3,938)
Change in net assets	(12,648)	(2,585)	(15,233)
Total net assets - beginning, as adjusted	989,166	3,584	992,750
Total net assets - ending	<u>\$ 976,518</u>	<u>999</u>	<u>\$ 977,517</u>

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Water Utility	Solid Waste	Total
<u>Cash flows from operating activities</u>			
Receipts from customers	\$ 91,201	37,546	128,747
Payments to suppliers	(41,206)	(18,522)	(59,728)
Payments to employees	(18,136)	(6,185)	(24,321)
Net cash provided by (used in) operating activities	<u>31,859</u>	<u>12,839</u>	<u>44,698</u>
<u>Cash flows from capital and related financing activities</u>			
Proceeds from impact fees	2,800	-	2,800
Principal paid on capital debt	(4,530)	(8,463)	(12,993)
Interest paid on capital debt	(4,516)	(5,692)	(10,208)
Net cash provided by (used in) capital and related financing activities	<u>(6,246)</u>	<u>(14,155)</u>	<u>(20,401)</u>
<u>Cash flows from investing activities</u>			
Interest and dividends received	3,470	-	3,470
Net cash provided by (used in) investing activities	<u>3,470</u>	<u>-</u>	<u>3,470</u>
Net increase (decrease) in cash and cash equivalents	29,083	(1,316)	27,767
Cash and cash equivalents - beginning, as adjusted	131,320	9,289	140,609
Cash and cash equivalents (deficit) - end	<u>\$ 160,403</u>	<u>7,973</u>	<u>168,376</u>
Shown on the balance sheet as:			
Cash and cash equivalents	\$ 37,652	7,973	45,625
Restricted cash and cash equivalents	122,751	-	122,751
	<u>\$ 160,403</u>	<u>7,973</u>	<u>168,376</u>
<u>Reconciliation of operating income to net cash provided (used) by operating activities:</u>			
Operating income	\$ (14,402)	3,107	(11,295)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	47,447	11,202	58,649
(Increase)/decrease in accounts receivable	3,999	-	3,999
Increase/(decrease) in accounts payable	(5,185)	(1,470)	(6,655)
Total adjustments	<u>46,261</u>	<u>9,732</u>	<u>55,993</u>
Net cash provided (used) by operating activities	<u>\$ 31,859</u>	<u>12,839</u>	<u>44,698</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Town is a municipal corporation governed by an elected mayor and four member council. As required by generally accepted accounting principles, these financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations and so data from these units are combined with data of the primary government. However, there are no component units required to be included in the Town's financial statements.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Note 1 - Summary of Significant Accounting Policies - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue* fund is used to account for the revenues and expenditures associates with the drug tack force.

The Town reports the following major proprietary funds:

The *water fund* accounts for the operations of the Town's water and system.

The *solid waste* fund accounts for the operations of the Town's garbage collection.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Note 1 - Summary of Significant Accounting Policies - Continued

Amounts reported as program revenues include 1) charges to customers or applicants for goods, service, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the public utility enterprise fund are charges to customers for sales and services. The fund also recognizes as operating revenue the portion of water connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

1. Deposits and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the Town, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Note 1 - Summary of Significant Accounting Policies - Continued

All trade, property, sales, and franchise tax receivables are shown net of an allowance for uncollectibles.

Property taxes are collected by the County Treasurer and remitted to the Town shortly after collection. Property taxes are levied based on property values as of January 1 of each year, with liens posted as of the same date. Taxes are due and payable on November 1 and delinquent after 12 o'clock noon on November 30 of each year.

Sales taxes are collected by the State Tax Commission and remitted to the Town monthly.

3. Restricted cash and cash equivalents

Certain resources of the Town's water enterprise funds are set aside for the repayment of revenue bonds, and for repairs of the system as required by applicable bond covenants.

4. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the applicable government or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Building improvements	15
System infrastructure	30 - 40
Vehicles	5
Equipment	7 - 15

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Note 1 - Summary of Significant Accounting Policies - Continued

5. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

6. Fund equity/Net assets

Contributed capital is recorded in proprietary funds that have received capital contributions from developers, customers or other funds. Reserves represent those portions of fund equity not appropriable for expenditure or legally separated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary information

Budgets are prepared and adopted, in accordance with State law, by the Town of Stockton Council on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, and capital projects funds. Tentative budgets must be adopted on or before June 22nd for the following fiscal year, beginning July 1. Final adoption of the budget must be no later than August 17th. Budgets may be increased by resolution of the Town Council at any time during the year. A public hearing must be held regarding any proposed increase in a fund's appropriations. The budget is adopted by fund, function and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Town Council. The legal level of budgetary control is the function level. Appropriations lapse at June 30. During the year, supplemental appropriations were made decreasing General Fund expenditures by \$89,700.

Utah State law states that expenditures being made in excess of those budgeted, is an illegally created debt in violation of the Utah Constitution. As such the total illegally created deficit should be budgeted to be made up in the following fiscal year. Deficits arising from emergencies are not illegal and may be retired over 5 years. The law also allows for the accumulation of a fund balance in the general fund in an amount equal to 75% of the total estimated revenue of the General Fund. In the event that the fund balance, at the end of the fiscal year, is in excess of that allowed, the Town has one year, to determine an appropriate use and then the excess must be included as an available resource in the General Fund budget.

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Note 3 - Detailed Notes on all Funds

Deposits and investments

The Town maintains cash accounts with local institutions and investment pools with the Utah Public Treasurers' Investment Fund, which is available for use by all funds.

Utah State law requires that Town funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the Town and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of June 30, 2005, the Town had the following deposits and investments:

	<u>Fair Value</u>
Cash on deposit	\$ 38,576
State Treasurer's investment pool	<u>295,675</u>
	<u>\$ 334,251</u>

Interest rate risk. The Town manages its exposure to declines in fair value by only investing in the Utah Public Treasurers Investment Fund.

Credit risk. As of June 30, 2005, the Utah Public Treasurer's Investment Fund was unrated.

Concentration of credit risk. The Town's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005, none of the \$38,576 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Note 3 - Detailed Notes on all Funds - continued

Custodial credit risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments that are in the possession of an outside party. The Town's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2005, are as follows:

Cash on deposit	\$ 10,203
Utah State Treasurer's	
Investment pool account	<u>295,675</u>
	<u><u>\$ 305,878</u></u>

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash and cash equivalents	\$ 183,127
Restricted assets:	
Cash and cash equivalents	<u>122,751</u>
	<u><u>\$ 305,878</u></u>

Receivables

Receivables as of year end for the governmental type and business type funds are as follows:

	<u>Governmenta</u>	<u>Business</u>	<u>Total</u>
Accounts	\$ -	9,459	9,459
Property tax	3,166	-	3,166
Sales tax	7,601	-	7,601
B & C road revenue	6,029	-	6,029
Deferred property tax revenue	44,801	-	44,801
Grants	17,856	-	17,856
	<u>\$ 79,453</u>	<u>9,459</u>	<u>88,912</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 106,495	-	-	106,495
Total capital assets not being depreciated	106,495	-	-	106,495
Capital assets being depreciated:				
Buildings	271,868	-	-	271,868
Improvements	157,383	-	-	157,383
Machinery and equipment	188,160	70,193	-	258,353
Total capital assets being depreciated	617,411	70,193	-	687,604
Less accumulated depreciation for:				
Buildings	58,747	9,515	-	68,262
Improvements	56,616	10,287	-	66,903
Machinery and equipment	137,110	23,257	-	160,367
Total accumulated depreciation	252,473	43,059	-	295,532
Total capital assets, being depreciated, net	364,938	27,134	-	392,072
Governmental activities capital assets, net	\$ 471,433	27,134	-	498,567

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Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Note 3 - Detailed Notes on all Funds - continued

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 107,838	-	-	107,838
Total capital assets not being depreciated	107,838	-	-	107,838
Capital assets being depreciated:				
Buildings	40,632	-	-	40,632
Distribution mains and reservoir	1,695,638	-	-	1,695,638
Machinery and equipment	229,656	-	-	229,656
Total capital assets being depreciated	1,965,926	-	-	1,965,926
Less accumulated depreciation for:				
Buildings	26,548	2,067	-	28,615
Distribution mains and reservoir	895,445	40,735	-	936,180
Machinery and equipment	59,115	15,847	-	74,962
Total accumulated depreciation	981,108	58,649	-	1,039,757
Total capital assets, being depreciated, net	984,818	(58,649)	-	926,169
Business-type activities capital assets, net	\$ 1,092,656	(58,649)	-	1,034,007

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 20,297
Public safety	22,650
Highways and public improvements	-
Parks and recreation	112
Total depreciation expense -governmental activities	43,059

Business-type activities:

Water utility	47,447
Solid waste	11,202
Total depreciation expense - business-type activates	58,649

Total depreciation expense	\$ 101,708
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Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Note 3 - Detailed Notes on all Funds - continued

Interfund receivables, payables, and transfers

Individual interfund receivable and payable balances at June 30, 2005 are as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General fund	\$ 14,500	-
Special revenue fund	-	14,500
	<u>\$ 14,500</u>	<u>14,500</u>

Capital leases

The Town has entered into lease agreements as lessee for financing the acquisition of a police vehicle in governmental activities. The Town has also financed a garbage truck, and garbage cans in the solid waste fund. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental</u>	<u>Solid Waste</u>
Vehicles	\$ 22,100	-
Garbage truck	-	140,000
Garbage cans	-	18,644
	<u>\$ 22,100</u>	<u>158,644</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005 were as follows:

<u>Year ending June 30:</u>	<u>Governmental</u>	<u>Solid Waste</u>
2006	\$ 6,780	13,071
2007	4,325	13,169
2008	-	13,268
2009	-	13,368
2010	-	13,469
2011-2015	-	68,822
2016-2020	-	42,172
	<u>11,105</u>	<u>177,339</u>
Less: amounts representing interest	<u>(589)</u>	<u>(32,447)</u>
Present value of minimum lease payments	<u>\$ 10,516</u>	<u>144,892</u>

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Note 3 - Detailed Notes on all Funds - continued

Short-term note payable

The town received a grant from the State of Utah to do a feasibility study for a sewer system for the Town. The Town board has subsequently decided not to bond for the installation of a sewer system. The Town is obligated to repay the amount of the grant in the amount of \$238,210. The Town is trying to set up a payment schedule as resources may not allow the Town to pay the amount in one payment.

Long-term debt

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital lease payable	\$ 16,271	-	(5,755)	10,516	6,413
Total governmental activities long-term liabilities	\$ 16,271	-	(5,755)	10,516	6,413
Business-type activities:					
Bonds payable:					
Water revenue bonds	\$ 91,870	-	(4,530)	87,340	4,782
Total bonds payable	91,870	-	(4,530)	87,340	4,782
Capital lease payable	153,355		(8,463)	144,892	8,793
Total business-type activities long-term liabilities	\$ 245,225	-	(12,993)	232,232	13,575

Revenue bonds

The Town issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original debt of the 1980 revenue bonds series A, was \$155,000 with monthly installments of \$755 beginning June 1980, due in 2019. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
1980 Series A Water fund	4.75%	\$ 87,340

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2005

Note 3 - Detailed Notes on all Funds - continued

Revenue bond debt service requirements to maturity are as follows:

For the year ending June 30	Principal	Interest
2006	\$ 4,782	4,278
2007	5,027	4,033
2008	5,284	3,776
2009	5,554	3,506
2010	5,838	3,222
2011-2015	33,990	11,310
2016-2020	26,865	2,334
Total	<u>\$ 87,340</u>	<u>32,459</u>

Note 4 - Other information

Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Related party

The Town has contracted with Thomas Tax & Bookkeeping to administer the special revenue task force grants. The owner is the spouse of the Town's mayor. The Town paid \$1,600 for services during the year ended June 30, 2005.

Prior period adjustments

Prior period adjustments were made in the fund financial statements for cash that was recorded in the wrong fund in prior years. The amount of adjustments in the various funds are as follows; General fund \$ 131,320, Special revenue fund \$(4,329), Solid Waste fund \$ 7,731, and the Water fund \$ (134,722). The general fund also had an adjustment of \$(5,847) for expenses not included in prior year.

Subsequent event

After year end the stewardship for the Tooele County Drug Task Force was transferred to Tooele county. The Town reported this as a special revenue fund in the financial statements and will close out the fund in the subsequent year.

OTHER REPORTS

Ulrich & Associates, PC

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and Members
of the Town Council
Town of Stockton
Stockton, UT

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Stockton as of and for the year ended June 30, 2005, which collectively comprise the Town of Stockton's basic financial statements and have issued our report thereon dated December 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Stockton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Stockton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Members of Utah Association of CPAs | American Institute of CPAs

Charles E. Ulrich, CPA | Michael E. Ulrich, CPA
Cathie Hurst, CPA | Heather Christopherson, CPA
website | www.ulrichcpa.com

4991 South Harrison | Ogden, Utah 84403
Tel | 801.627.2100 | Fax | 801.475.6548
email | ulrich@ulrichcpa.com

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Town of Stockton in a separate letter dated December 20, 2005.

This report is intended solely for the information and use of the Town Council, management, others within the organization, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Whit & Associates, P.C.

December 20, 2005

Ulrich & Associates, PC

Certified Public Accountants

STATE LEGAL COMPLIANCE REPORT

The Honorable Mayor and Members
of the Town Council
Town of Stockton
Stockton, UT

We have audited the general purpose financial statements of the Town of Stockton for the year ended June 30, 2005 and have issued our report thereon dated December 20, 2005. As part of our audit, we have audited compliance with the requirements governing types of services allowed or unallowed, eligibility, matching, level of effort or earmarking, special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The town received the following major State assistance programs from the State of Utah:

Class "C" Road Allotment
Liquor Law Enforcement (State Tax Commission)

Our audit also included testwork on the Town's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Justice Court Compliance
Cash Management	B and C Road Funds
Purchasing Requirements	Other Compliance Requirements
Budgetary Compliance	Uniform Building Code Standards
Property Tax Limitations	Impact Fees and Other Development Fees
Liquor Law Enforcement	

The management of the Town of Stockton, is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings. We considered these instances in forming our opinion on compliance, which is expressed in the following paragraph.

Members of Utah Association of CPAs / American Institute of CPAs

Charles E. Ulrich, CPA | Michael E. Ulrich, CPA
Cathie Hurst, CPA | Heather Christopherson, CPA
website] www.ulrichcpa.com

4991 South Harrison | Ogden, Utah 84403
Tel] 801.627.2100 | Fax] 801.475.6548
email] ulrich@ulrichcpa.com

In our opinion, the Town of Stockton, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed, eligibility, matching, level of effort or earmarking, reporting, and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Wright & Associates, P.C.

December 20, 2005

Town of Stockton

Schedule of Findings State Legal Compliance

1. Fund Balance

Fund balance deficit occurred in the special revenue fund and the solid waste fund.

Auditors Recommendation

We recommend the Town budget to reduce expenditures or increase the fees so as to reduce the deficits in the future

Management Response

Expenditures will be monitored near year end to not exceed revenues received. In the solid waste fund, we anticipate that normal operations will fund the deficit.